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Baker-Polito Administration Proposes Tax Relief Measures, Major Deposit in Rainy Day Fund

FY19 surplus of \$1.1 billion will also support significant increases in public education, fund transportation and infrastructure investments, and help target fentanyl trafficking

BOSTON – The Baker-Polito Administration today filed legislation to provide tax relief to Massachusetts residents and make a milestone deposit in the Stabilization Fund to bring the fund balance to \$3 billion, the highest balance ever. These proposals are part of a \$651 million supplemental budget bill that also makes investments in a wide range of areas including infrastructure, education and support for cities and towns.

“The Commonwealth’s strong economy and our disciplined approach to budgeting have resulted in another major surplus,” **said Governor Charlie Baker**. “In addition to providing taxpayer relief to Massachusetts families, the 2019 surplus will also enable us to fund other priorities in a responsible way, including providing additional support to public schools and further strengthening our reserves.”

“The 2019 surplus will help deliver meaningful taxpayer relief for Massachusetts residents and fund investments that benefit all 351 cities and towns in the Commonwealth,” **said Lt. Governor Karyn Polito**. “From additional highway funding to assistance in meeting special education and regional school transportation costs, this budget includes support for all of our municipal partners.”

The proposal calls for setting the 2020 Part B income tax rate at 5.0% — bypassing the remaining revenue tests that the Commonwealth otherwise would be required to pass before the rate is reduced to that level. Taking this proactive step would ensure that the will of Massachusetts voters as prescribed in a 2000 ballot initiative is fulfilled next year, ending any uncertainty and assuring that the rate changes to 5.0% on Jan. 1. Because the Fiscal Year 2020 (FY20) budget already assumes a reduction to 5.0%, there would be no budgetary impact from the change. By statute, the rate will remain at 5.0%, and there would be no trigger tests in future years.

The bill also proposes a doubling of the income tax exemption for dependents, from \$1,000 per dependent to \$2,000, resulting in a direct additional benefit for 1 million taxpayers who have children, or care for dependent relatives who are elderly or have a disability, of approximately \$50 per dependent. To support the increase, the budget calls for a one-time deposit of \$175 million from the Fiscal Year 2019 (FY19) surplus into the Tax Reduction Fund. That funding would support two years of deductions at the higher rate, without any impact on the FY20 or FY21 budgets, and would provide a sufficient transition period until the higher exemption can be incorporated into future budget assumptions. The \$2,000 per dependent exemption is estimated to reduce tax collections by \$87 million per year.

The budget also proposes a change to ensure that Massachusetts military veterans who are permanently disabled won't face a tax liability as a result of a federal program to cancel their federal student loan debt. Under current Massachusetts law, that loan forgiveness would be considered a taxable benefit. For example, a \$20,000 loan forgiven could potentially create a \$1,000 state tax bill. The budget proposal will make the benefit non-taxable in Massachusetts.

The bill calls for using the FY19 surplus to fund a one-time, milestone deposit in the Stabilization Fund to immediately achieve a balance of \$3 billion, the largest balance since the fund was created and representing approximately 10% of state tax revenue — an important measure of protection against any future economic downturn. The deposit is expected to total approximately \$168 million. The FY20 budget anticipates an additional deposit of \$476 million, which would bring the Stabilization Fund balance to \$3.5 billion by the end of FY20.

In addition to the tax measures and Stabilization Fund transfer, the bill calls for \$100 million in education investments, including \$50 million for targeted assistance for school districts with high concentrations of low-income students to implement turnaround strategies. The proposal includes \$15 million for the Commonwealth Commitment program, as well as other college scholarship programs aimed at improving college affordability and student success, and \$15 million to support scholarship assistance for high school students enrolled in Early College programs, in partnership with higher education campuses. The budget also proposes \$15 million to fund a second round of grants for school security infrastructure, and \$5 million in additional support for Science, Technology, Engineering and Math (STEM)-focused programs.

“Since 2015 the Baker-Polito Administration has worked diligently to ensure that as a Commonwealth we are living within our means,” said **Administration and Finance Secretary Michael J. Heffernan**. “This proposal will invest supplemental funds in way that has a direct benefit for taxpayers and funds important priorities today, while continuing to protect the Commonwealth’s structural balance both today and tomorrow.”

The supplemental budget also provides more than \$100 million in overall infrastructure spending, including \$50.5 million in grants to cities and towns for local road and bridge improvements and more than \$60 million in investments related to clean drinking water, including funding for PFAS testing and mitigation.

In addition to those investments, the Administration previously announced a proposal to use \$50 million from the FY19 surplus to fund the acceleration of MBTA capital construction and infrastructure

projects. The funds would support additional MBTA employees and outside experts to support capital project delivery, proactive inspections, and enhanced maintenance.

The proposal recommends \$5 million to address trafficking of the synthetic opioid fentanyl, which according to recent Department of Public Health data was present in 92% of opioid-related overdose deaths in Massachusetts in the first three months of 2019 in which there was a toxicology screen. The funding would support regional fentanyl interdiction programs focused on investigating major criminal enterprise and criminal activities related to fentanyl trafficking.

The supplemental budget also includes \$16.4 million in funding to improve services for men who are civilly committed for substance use treatment under Section 35 of Chapter 123 of the General Laws.

Other supplemental budget highlights:

- \$10 million to boost homeownership, specifically through mortgage down payment assistance
- \$6.9 million for remaining snow and ice removal costs from FY19
- \$4 million for the Community Compact program to support grants for cities and towns
- \$3.5 million for additional spraying to reduce the risk of Eastern Equine Encephalitis (EEE)
- \$3.4 million for the Workforce Competitiveness Trust Fund
- \$2 million in additional special education circuit-breaker funding for cities and towns
- \$1.2 million in additional funding for regional school transportation
- \$1 million for grants to non-profit organizations that face security threats to assist with their security needs

In total, the supplemental budget bill consists of \$648 million in supplemental appropriations, at a net state cost of \$429 million. After accounting for certain outside sections, the total fiscal impact of the bill is \$651 million.

The bill will close the books on FY19, which ended June 30. Preliminary tax collections for FY19 were \$1.1 billion above budgeted estimates.

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